



PRESS RELEASE

Federal Deposit Insurance Corporation • Each Depositor insured to at least \$250,000

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FDIC Issues Proposed Guidance on Deposit Advance Products

FOR IMMEDIATE RELEASE

The Federal Deposit Insurance Corporation (FDIC) today proposed for public comment supervisory guidance to FDIC-supervised financial institutions that offer or may consider offering deposit advance products. The proposal is intended to ensure that banks are aware of a variety of safety and soundness, compliance, and consumer protection risks posed by deposit advance loans.

The proposal details the principles that the FDIC expects financial institutions to follow in connection with deposit advance products in order to effectively mitigate potential legal, reputational, consumer protection, compliance, and credit risks. The proposal discusses supervisory expectations for the use of deposit advance products, including underwriting and credit administration policies and practices. The proposal supplements existing FDIC guidance on payday loans and subprime lending.

FDIC Chairman Martin J. Gruenberg said, "The proposed supervisory guidance released today reflects the serious risks that certain deposit advance products may pose to financial institutions and their customers. Many financial institutions already profitably offer affordable small-dollar loans as an alternative to high-cost payday loans, and we encourage institutions to continue to seek ways to responsibly meet the need for small loans."

Deposit advance loans are a type of small-dollar, short-term credit product that some depository institutions offer to customers maintaining a deposit account, reloadable prepaid card, or similar deposit-related vehicle. The customer takes out a loan, which is to be repaid from the proceeds of their next direct deposit. These loans typically have



Congress created the Federal Deposit Insurance Corporation in 1933 to restore public confidence in the nation's banking system. It promotes the safety and soundness of these institutions by identifying, monitoring and addressing risks to which they are exposed. The FDIC receives no federal tax dollars — insured financial institutions fund its operations.

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high fees, are repaid in a lump sum in advance of the customer's other bills, and often do not utilize fundamental and prudent banking practices to determine the customer's ability to repay the loan and meet other necessary financial obligations. Deposit advance loans share a number of characteristics seen in traditional payday loans, including high fees; very short, lump-sum repayment terms; and inadequate attention to the consumer's ability to repay. As such, banks need to be aware that deposit advance loans can pose safety and soundness, compliance, and consumer protection risks.

The FDIC recognizes the need for safe, affordable and sustainable small-dollar credit products among consumers that are underwritten with consideration of the customer's ability to repay the loan without needing to borrow repeatedly to meet necessary expenses. The FDIC's 2007 Affordable Small-Dollar Loan Guidelines encourage insured institutions to offer small-dollar loan products that have affordable, reasonable interest rates with no or low fees and payments that reduce the principal balance of the loan. If structured properly, small-dollar loans can provide a safe and affordable means for borrowers to transition away from reliance on high-cost debt products. A number of banks are currently offering such reasonably priced small-dollar loans at reasonable terms to their customers. The FDIC encourages banks to continue to offer these products, consistent with safety and soundness and other supervisory considerations.

The proposed guidance will be published in the Federal Register, with a 30-day comment period.

Attachment:

[Proposed Guidance on Deposit Advance Products - PDF \(PDF Help\)](#)

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